

12 Conclusion

Capitalism in the dragon's lair

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Speed and scale

If we step back and consider China's rapid international ascent within the confines of the world's past 300 years of history, some intriguing parallels emerge. China's rise appears in many ways to be propelled by the same historical forces associated with the climb to international prominence of other great powers. Although each of these industrial powers charted its own course, buffeted by different historical and social currents, they all undertook a form of capitalist development.

China today is undoubtedly in the midst of such capitalist development. As noted in Chapter 2, this process is most fundamentally driven by the inherent human tendency to seek gain and accumulate capital. While this tendency exposes capitalism's less savory facets, from avarice to crass materialism, it also motivates diligence, thrift, and, perhaps most profoundly, human creativity. Of course, capitalism is in general distinguished by the rise of market institutions to organize the supply of our basic (and not-so-basic) livelihoods.

Ultimately, though, a political vantage point is perhaps the least understood and yet the most salient for developing countries. The unique historical process of capitalism is characterized by the rise of capital-owning social strata to economic, social, and political prominence. At first these social groups avoid, then cooperate, engage, and compete with state elites. If a capitalist transition proceeds, the increasing power of capital can balance the state's coercive means, establishing constitutional limits that assure the security of property rights and the predictability of economic rules.

While China is in the midst of a capitalist transition, the specific processes unfolding are often unmatched in speed and scale. In comparison to earlier instances of capitalist accumulation, China seems to be doing everything simultaneously in a much more condensed time frame. For instance, China's capitalism unites aspects of crude Victorian capitalism with 21st century technology and corporate organization. When comparing changes in US history with China's transition, then China has combined over the past decade:

the raw capitalism of the Robber Baron era of the late 1800s; the speculative financial mania of the 1920s; the rural-to-urban migration

of the 1930s; the emergence of the first-car, first-home, first-fashionable clothes, first-college-education, first-family-vacation, middle-class consumer of the 1950s; and even aspects of social upheaval similar to the 1960s.

(McGregor 2005: 3)

One of the most conspicuous manifestations of Chinese development is an intense effort to establish a continental infrastructure. Roads, ports, railways, telecommunication systems, as well as power generation and transfer networks are being developed with breathtaking speed and scope. China has already built the world's second largest expressway network, with more than 4,000 km of expressway added each year since 1998. Total length of this network reached 34,000 km by the end of 2004, and plans for the future are even more ambitious. The Chinese State Council approved in December 2004 a blueprint for a national expressway system of 85,000 km in length, spanning the country to include all cities with 200,000 or more residents (Fang 2004).

China's establishment of a comprehensive national infrastructure parallels earlier instances of capitalist development, including America's westward expansion in the late 19th century and the building of the interstate freeway network in the 1950s. In similar fashion, China is experiencing a rapidly accelerating process of urbanization. About 220 million farmers have moved from the countryside to cities between 1990 and 2003 (National Bureau of Statistics 2004: Table 4-1) and the growth rate of urbanization is at nearly 2 percentage points annually (*People's Daily* 2005). This represents the biggest and fastest move from the land to the city in human history. In tandem with urbanization, the education system is expanding at a rapid pace. Between 1999 and 2004 admissions to and graduations from high school both more than doubled, while university enrollment grew from around 1.6 million to 4.5 million students, a 180 percent increase (*China Economic Quarterly* 2005: 22–23).

On the flipside, there is a very dark quality to China's capitalist transition. As in all cases of initial capitalist accumulation, the processes occurring in China are often cruel in nature and accompanied by social ills. China has seen the abuse of the weak and the prevalence of extremely harsh working conditions. China's development has also been uneven with urbanization and greater mobility amplifying social and regional inequalities.

One of the most fundamental contradictions facing China's capitalist transition is environmental destruction on a shocking scale (see Economy 2004). The largest industrialization witnessed in the history of civilization is causing rampant pollution and resource depletion. Pollution alone cost the Chinese economy about 3 percentage points of GDP growth in 2004. As an official with China's State Environmental Protection Agency put it, "China can't go the way of polluting first, and then treating it; the ecological system that shoulders economic development will be crushed" (Spencer 2006).

Urbanization, industrialization, national integration, environmental degradation, and social institutionalization and stratification can be found

in all instances of initial capitalist development. China is no exception, exhibiting distinct parallels to its earlier predecessors. The first observation is therefore that China is fundamentally tracing the path of a capitalist transition. However, the second observation must be that the historical, geographical, and external conditions facing China's emergent capitalism are unique.

Up front is that China's capitalist transition is happening at breakneck speed on a massive scale. Phenomena unfolding are condensed in temporal terms and stunningly expansive in geographic terms. To one extent or another, all chapters in this volume engage with these two fundamental characteristics of China's transition.

Chapters 3 through 5 note how China's corporate sector is developing rapidly and on a scale that is already having an impact on the global competitive landscape. These chapters trace the development of an information technology (IT) sector with indigenous heavyweights, the emergence of a sizeable venture capital industry that is transferring knowledge, ideas and practices from abroad, and the advance of internationally competitive Chinese corporations that are in the process of mastering global expansion. Each in their own way thus expresses how both speed and scale are yielding a highly diverse political economy with considerable capacities at an early developmental stage.

Chapters 6 through 8 further elucidate the deep imprints speed and scale are leaving on China's transformation. Chapter 6 argues that China's large size creates considerable divergence in regional endowments, including disparities in access to global markets and capital. In turn, these differences are shaping a variety of locally embedded political economies. It makes therefore more sense to speak of varieties of capitalism within China. Chapter 7 provides a different facet of the influence of China's huge size. Although the party-state attempts to exercise hermetic control over the generation and dissemination of information, it is just impossible to master the resources to undertake such an effort. China is too large with by far too many media outlets. Finally, Chapter 8 expresses how the speed of China's economic transition has far outstripped the capacity of China's political system to deal with mounting socio-economic imbalances. China thus faces an increasingly polarized populace that could undermine the Chinese Communist Party's (CCP) future legitimacy.

The final three thematic chapters express the major roles that speed and scale play in China's enmeshment with the international system. Chapter 9 notes how the continuation of China's export boom along the lines of earlier export booms in East Asia will create a formidable trading power. The consequence: continuous structural economic change that will task global society's capacity to adjust. Chapter 10 observes the major contradiction between the energy resources available within China and the country's potential future needs. Quite simply, China's energy requirements are highly likely to stress the globe's geopolitical balances. Finally, Chapter 11 most

precisely states China's dilemma of size. China is already so large at such an early stage in its development that continued expansion of its international weight is strategically "threatening" to neighbors and major world powers. China's geopolitical environment could thus be severely complicated by the very continuation of its developmental trajectory.

The speed and scale of China's capitalist transition constitutes a fundamental characteristic, shaping the institutions, politics, and international ramifications of China's emergent political economy. Speed and scale also influence the three threads introduced in Chapter 1. These threads capture the forces of change, points of contention, and emerging dynamics of China's capitalist transition. Each of the three threads further aims to integrate the themes and arguments contained in this volume's nine topical chapters, thus weaving their findings into an inclusive narrative.

The three threads

The incomplete nature of China's capitalist transition

The incomplete nature of China's capitalist transition represents the first and perhaps most influential thread. As one Chinese colleague put it, "China is both far away from socialism and far away from capitalism."¹ China's embryonic market economy remains highly politicized. With this, the institutional certainty and predictability necessary for private capital to expand is only partially established.

That China is in the midst of a monumental transition is in and of itself not a remarkable finding. Most of the academic literature on China's contemporary political economy expresses this fact in one way or another. This volume, though, applies the capitalist lens in the hope of providing a comprehensive and historically accurate picture of China's transition, thus adding explanatory power.

Specifically, Chapter 2 "measured" the progress of China's transition while employing a sufficiently general, yet precise definition of capitalism. In this manner, it elucidated how China continues to lack substantial institutional and legislative certainty. The bifurcation of secular authority – the rise of capital-owning social strata to political and social prominence – has only evolved in embryonic form.

The capitalist lens thus draws attention to the continued Leninist constitution of the Chinese state and the historical legacy of China's political economy. As Chapter 6 laid out, China's political economy remains characterized by a marked duality. Two processes – state-led development from above and network-based development from below – shape its distinct contours. While this structure has allowed local government officials and private entrepreneurs to cooperate and foster capitalist accumulation, state-capital relations remain highly idiosyncratic and localized. Private entrepreneurs tend to forge clientelistic ties with the local party-state, encouraging a myriad of corrupt practices.

In a similar vein, Chapter 3 speaks of three tiers in China's industrial economy, the first of which is state-dominated, the second characterized by a host of hybrid firms, and the third consisting of mostly small-scale private firms. It is in the middle tier that both domestic and international forces have contributed to the rapid emergence of a vibrant IT sector. This sector, the authors argue, forms the vanguard of China's industrial and technological transformation yet remains in many ways tied to the Chinese state by hybrid ownership and insider dealing.

Chapters 4 and 5 also feature the blurred borderlines between corporate and government sectors as a fundamental characteristic shaping China's venture capital industry and multinational corporations. The partial nature of market reforms is further highlighted in the analyses of Chapters 7 and 8. In particular, Chapter 7's analysis of the media sector notes how China's incomplete transition has created immense tensions between a capitalist logic predicated on maximizing commercial success and a state dominant logic focused on maximizing political control.

Looking at China's role in the global capitalist system, Chapters 9 through 11 similarly grapple with the incompleteness of China's transition. Especially Chapter 11 makes clear that although the "primacy of the economy" is influencing Chinese foreign policy, the CCP's future foreign policy orientation remains indeterminate. Political imperatives, such as assuring internal political control and regime stability, might very well limit the degree to which China will adopt a liberal and "internationalized" foreign policy stance.

All the topical chapters thus reflect how China remains a political economy in transition. More specifically, the capitalist lens illuminates how this system remains shaped by two fundamental logics that clash: a state dominant logic emphasizing political control; and a capitalist logic emphasizing efficiency and commercial success. The interaction of these two logics shapes a host of hybrid, intermediary, and often internally contradictory institutions.

State dominated capitalism in China actually fosters close ties between capital and the state. Rather than seeking autonomy, most capitalists seek to further enmesh themselves in state and party institutions, both for commercial and political reasons. China's emergent political economy thus remains dominated by the Chinese party-state, hampering the development of rule-based governance. This poses one fundamental question for the future of China's emergent political economy: will it become stuck in a form of "Chinese crony capitalism?" I will take this inquiry up in the last sections of this chapter, when I discuss the possible future scenarios facing China's capitalist transition.

China's unique variety of capitalism

The second thread infusing the narrative of China's capitalist transition is that China is undoubtedly generating a unique form of capitalism.

As noted above, standard features of capitalist development over the past 300 years are readily apparent in China, including urbanization, industrialization, environmental degradation, and social stratification. Nonetheless, China's transition is unfolding under historical, geographical, and external conditions that differ from earlier instances of capitalist development.

As a result, China is contributing to the generation of new capitalist institutions domestically and globally, something that is reflected in all chapters. Chapters 3 through 5 express succinctly how parts of China's corporate sector are melding cutting-edge features of corporate organization with China's unique national endowments. Chapter 3, for instance, argues that China is developing a multi-centric economy with considerable flexibility, international openness, and local diversity. Although many of China's IT firms continue to be characterized by close government-business ties and hybrid ownership, they are also showing patterns of organizational and strategic behavior that are likely to foster robust development.

Coming from a similar vantage point, Chapters 4 and 5 call attention to how China's rapid assimilation of global capitalist norms and practices is generating new forms of Chinese management. In fact, Chapter 5 notes that China's emerging multinationals are not building traditional corporate hierarchies but rather international knowledge networks. A global "learning effect" is taking place that allows Chinese companies to move into higher value activities while other aspects of China's domestic economy remain underdeveloped.

Chapters 6 through 8, while focusing on more politically charged dynamics, also find that the interplay of a state dominant logic with a capitalist logic is creating a host of hybrid institutions. This can be seen in China's budding network capitalism that combines some of the benefits of state-led development with networks of small-scale producers. Such "hybridization" has facilitated the infusion of Overseas Chinese capital into Chinese production networks, creating institutional synergies and instant access to world markets.

Chapter 7 notes another peculiar Chinese invention – the Chinese media conglomerate. Such conglomerates fulfill two purposes: one is quintessentially capitalist – to seek economies of scale; the other quintessentially Leninist – to simplify party oversight over media content. Indeed, these media conglomerates tend to use revenues from commercially oriented tabloids to support the promulgation of CCP propaganda in other less profitable news sources. Quite elegantly, this has allowed the CCP to combine Leninist and capitalist practices.

Chapter 8 maps the unique political dynamics facing China's capitalism. Unlike many earlier capitalist developers, China's transition has been initiated, guided, and controlled by an ideologically anticapitalist party-state. So far, the Leninist constitution of this state has not allowed for any significant separation of political and economic powers. Rather, social stratification and spiraling class conflicts have driven affluent Chinese into

the arms of authoritarian stability. This is leading China's lower classes into an apparently revolutionary disposition, making a smooth transition toward democratic rule more remote.

Chapters 9 through 11 further elucidate several aspects of China's unique capitalism. Chapter 9, for instance, compares the different dynamics and features of China's export boom with those preceding it in East Asia. Another notable aspect is how China has built a highly internationalized export regime while limiting the influence of foreign investors and traders on much of its internal trading system. Again, a dualistic picture of China's emergent political economy emerges.

In sum, China has developed specific institutional features and organizational structures that are beginning to constitute a unique form of capitalism. In large part, the uniqueness of China's emergent capitalism stems from two sources. First, the combination of cutting-edge practices used under the new global capitalism with institutional arrangements necessitated by China's underdeveloped domestic economy. Venture capitalists in China, for example, need to both master the Chinese art of *guanxi* and have in-depth knowledge of new developments in global finance and corporate governance.

The second source are the deep tensions and opposing forces created by the two dominant logics shaping China's emergent capitalism: a state dominant logic seeking to assure the CCP's monopoly over political organization; and a capitalist logic creating a transformative push that expands capital's economic and political space. The result is a number of hybrid institutions, ranging from the dynamic telecommunications equipment manufacturer Huawei to Chinese state oil and shipping companies that distinctively intermingle commercial and political goals.

The clash of these two logics also lends China's institutional transformation a somewhat bizarre quality. Institutions, such as media conglomerates, often have dual purposes that are not readily apparent. This is further reflected in China's international posture. Chinese diplomats tend to note that they do not interfere in the political affairs of other sovereign nations, and that "business is business." In reality, though, economic and political interests are inextricably intermingled in many of China's institutional arrangements and commercial transactions. The international realm is no exception.

China's emergent capitalism and its global impact

The third thread permeating the chapters is an intense concern with how China's role in the global capitalist system is likely to evolve. Many of the chapters reflect that China's international ascent is already a reality. Due to its large size, fast developmental dynamics, and unique institutional arrangements, China is having an impact on the globe's economics and geopolitics at a very early stage in its transition. And if China's evolution

roughly follows its present trajectory, then China's rise will reshape the 21st century.

On the positive, China's emergence could have a beneficial impact on the world economy, and especially on Asia. Already at an early stage in its capitalist transition China has become a force for regional economic integration. This is not only a result of its size but also of China's relative openness. At first, networks of ethnic Chinese investors built bridges linking China with Asia, but soon global production networks started to base assembly and innovation operations in the country. After WTO accession, these networks are upgrading and expanding. China thus figures prominently in the strategic decision-making of the world's largest corporations.

The relentless opening of sector after sector to foreign trade and investment has also made China one of the globe's most interdependent economies. As a result, China has now reached a point where it has become quantitatively significant as a force driving world economic growth. For instance, China's economic boom from 2002 to 2006 has benefited its Asian neighbors significantly by providing considerable economic stimulus.

In this manner, China's economic ascent could create a strong third node in the global capitalist system. This node is likely to integrate the economies of Japan, South Korea, Taiwan, and Southeast Asia with China's own, fostering deep regional economic interdependence. Indeed, China's ascent might define an era in which East Asia becomes the globe's largest and most dynamic growth pole.

While the potential of China in global economic terms is enormous, most chapters in this volume also convey some unease about the future of China's capitalist transition and its impact on the world. As with the rise of great powers before it, China's rise will be disruptive and difficult for the international system. First, China has already at an early stage in its transition produced internationally competitive corporations. Corporations like Pearl River Piano or Hai'er have managed to combine global best practices with China's unique endowments. This is also expressed in China's fast developing venture capital sector and the international competitiveness embedded in Chinese network capitalism.

As many Chinese companies move into more advanced industries, they will target the more sophisticated markets that Western nations and Japan have so far considered their sole preserve. In the not-too-distant future, therefore, jobs which were thought to be immune from Chinese competition will start to come under pressure in developed nations. Perceptions of "unfair" competition will be further aggravated by the incomplete nature of China's capitalist transition.

Chapter 5 situates this issue lucidly when Ming Zeng and Peter Williamson note that "the public in the developed world may be poorly prepared for the international repercussions of China's capitalist transition." Indeed, "the risks of protectionist or potentially retaliatory policies are aggravated by the fact that the key driver of overseas expansion by Chinese companies,

China's capitalist transition, remains far from complete." The incompleteness of China's transition generates opaque policy-making, an underdeveloped "soft" infrastructure of the economy, and significant distortions to market-driven resource allocation. Since the corporate practices of Chinese multinationals are being shaped by this incompleteness, their increasing weight in the global economy raises the specter of mounting frictions. China is already being accused by some in the West of exporting dysfunctional domestic practices, including corruption, bad lending, a disregard for labor rights, and poor environmental standards. In that sense, the present tensions over the exchange rate of the Chinese *yuan* might only be a prelude to even more contentious disputes.

This issue is further elucidated by analyses in Chapters 9 through 11. For example, Yinhong Shi in Chapter 11 argues that the incompleteness of China's capitalist transition circumscribes the "primacy of the economy" in influencing Chinese foreign policy. This raises a two-pronged problem: the dilemma of China's incomplete transition combined with the dilemma of China's huge size. China is emerging very rapidly as a very large global economic power, yet its internal institutional arrangements lack legislative and institutional certainty. Perhaps never has the global system had to deal with such a large power at such an early stage in its development.

China's continued international ascent is therefore doubly "threatening" to its neighbors and major world powers. First, as with the rise of any great power, China's ascent is fundamentally alarming because new powers tend to destabilize established international orders. Second, many of China's institutions remain underdeveloped and shaped by a one-party Leninist state with a historical legacy of empire. Add on Chapter 8's arguments on the potential for political instability if socio-economic disparities continue to widen, and it becomes clear why the world might be faced with a major capitalist power that is internally volatile. There is thus no certainty that China will adopt moderate foreign policies that support the international status quo in the future.

In one way or another, China's unrelenting rise will reshape the globe's geopolitical environment. It will complicate China's international relations and create uncertainties over the prospects for sustaining China's own development. Ironically, China's continued development might constitute the country's biggest geopolitical liability, since China's escalating international impact combined with an incomplete capitalist transition will undoubtedly challenge established economic and geopolitical balances.

Future scenarios

China is irrefutably in the process of a capitalist transition. But is this transition sustainable? And where will it lead? Answering these questions necessitates some futuristic thinking, an undertaking that is generally discouraged in the social sciences. Despite the pitfalls associated with

peeking into the future, I will attempt an exercise of logical analysis and extrapolation. The hope is that this will allow me to put forward possible future scenarios concerning China's capitalist transition.

The capitalist lens adopted in this volume can shed some important light on the inherent tendencies in China's domestic political economy. As noted in Chapter 2, political imperatives could conceivably halt China's capitalist transition and roll back achievements to date. There are many historical examples of this. Clearly, there is a distinct danger that China's political economy could become stuck in a form of "Chinese crony capitalism," perpetuating the present situation in which most sizeable private firms must seek close clientelistic ties with government officials. In fact, to move beyond Chinese crony capitalism, China's political leadership will have to come to grips with major political trade-offs.

One of the key distinguishing aspects of capitalist systems is their potential to establish rule-based governance that restrains and reshapes state action. The result is the gradual construction of a relatively self-directing and autonomous realm of the economy. Since capital moves according to where the greatest returns and lowest risks are, states, in order to retain and generate wealth, must create favorable conditions for capital accumulation. These conditions include establishing secure property rights, functioning markets, and predictable policies. At the same time, capitalist development expands state power enormously. States can make use of the greater productive capacities unleashed by economic growth, therefore marshalling superior organizational, financial, technological, and human resources.

One of the most misunderstood aspects of capitalism in popular conceptions is that it is a purely "private" economic system. Quite to the contrary, the expansion of capital-owning classes serves to expand and reconstitute state power. In essence, capitalist development leads to a process of mutual empowerment whereby both the realm of the "economy" and that of the "state" gain in sophistication and governance capacity. The structural power of capital tends to keep in check the vagaries of state power, while the state tends to constrain the imperfections of markets and the avarice of humans.

The world's history, though, shows that few state elites are willing to strike this "deal" with capital. Since states are inclined to acquire a monopoly over the concentrated means of coercion within their territory, they tend to squash potential competitors for power. Capital represents such a competitor, because its possession of wealth can rival the influence of the state.

Therefore, capital remains at the mercy of state elites before capitalist political economies mature. Indeed, capital leads a highly precarious existence during the early stages of capitalist development. State elite's direct influence over property rights and exchange systems allows them to easily repress or subvert the growing power of capital-holding classes. The lack of widespread capitalist development in the world attests to this fact.

Evidently, one of the necessary conditions for capitalist development is a modicum of security provided by the state to capital. Otherwise, capitalists are likely to move their holdings to safe havens.

Stated differently, for capitalist development to advance, state leaders must be induced to institutionalize greater political sway for capital. Ultimately, real or perceived threats to national and/or regime survival are the most common forces pushing state elites in this direction. Judging from how China's communist leadership views the external environment (as basically hostile and intent on subverting its rule) there are some grounds for optimism.

Possible domestic scenarios

China's capitalist transition has unleashed enormous increases in productivity, drawn large segments of Chinese society into capitalist relations of production, and integrated China's economy with the global capitalist system. Over the past years, though, the strains and contradictions created by China's own successes have become increasingly evident. I already have mentioned some of these, including environmental degradation on a massive scale and the accumulation of inequalities between the winners and losers of reform. More specifically, China suffers from many of the excesses typically present during initial phases of capitalist accumulation. These include, for example, the eviction of poor people from their land and homes in order to commercialize more land for construction and real estate; mounting instances of corruption and popular dissatisfaction with state governance; rapid migration of rural residents to cities and the resulting stresses of urbanization; and the failure to adapt China's social security system to the country's changed conditions.

Faced with these challenges, what are the likely future trajectories of China's political economy? I will elaborate here three likely scenarios. This list is not exhaustive and at best tentative. The three scenarios, though, attempt to capture the range of possibilities without falling into extremes.

Scenario I: in-system tinkering

In the near future, the most likely scenario for China is that present arrangements stay in place. This implies that most reform efforts amount to in-system tinkering. One way to understand this scenario is to assume that the deep historical legacy of China's imperial and Leninist past would continue to hold sway. The state's dominance over private commercial and industrial capital would remain intact. The CCP party-state would also continue its aim of strengthening societal controls, especially over the generation and dissemination of information.

Under the present leadership of Hu Jintao and Wen Jiabao such moves are clearly evident. The idea of a "harmonious society" reflects, on one hand,

an awareness of the massive stresses generated by China's capitalist transition. On the other, it expresses that the CCP wants to take the lead in addressing social inequalities and environmental pressures, thus bolstering its domestic legitimacy. In fact, the present leadership is implicitly using the contradictions of China's capitalist transition to foster a new governing ideology. Based on Chinese people's fear of social chaos (*luan*), the CCP is tacitly encouraging a come-back of Confucian precepts, aiming perhaps to establish a Neo-Confucian order under CCP tutelage.

This scenario does not preclude that certain aspects of the state's bureaucracy and regulatory apparatus continue to be refined. Moreover, China's corporate sector would continue its development and internationalization. Within system tinkering might even extend to changes in the tax code and in the social security system to afford the weakest and most vulnerable members of Chinese society better economic protection. However, this scenario does not involve fundamental changes to China's political economy, such as establishing a relatively autonomous system of courts or more independent governmental oversight institutions, such as Hong Kong's Independent Commission Against Corruption.

How long could China's political economy muddle through under institutional and political parameters assuring CCP dominance? In view of China's present social and environmental stresses the sustainability of the system is more likely to be measured in years than decades. For example, since 2003 the CCP has been tinkering with the cadre incentive system to press for greater social and environmental accountability on the part of local cadres. However, so far these efforts have not met with much success, reflecting the limits to in-system tinkering.

Scenario II: peaceful evolution

Most Chinese quietly admit that the very best scenario for China's future is peaceful evolution (*heping yanbian*). Under this scenario, institutional change in state administration, law, and other spheres would be sustained, supporting continued progress by China's capitalism. Most importantly, this would entail a strengthening of the rule of law, which would have to include a substantial reduction in the CCP's powers to oversee and direct court judgments.

Peaceful evolution would further imply that emerging political interests are effectively incorporated into the polity, enabling China to attain greater degrees of social and environmental justice. Under Jiang Zemin's "Three Represents," capital-owning social strata have already been given greater political recognition. However, as An Chen points out in Chapter 8, these new social interests remain under CCP tutelage. Members of China's weak middle classes and poor under classes also continue to feel politically powerless. When China's mounting social polarization is added to this mix, the prospect of heightened social tensions, even if mediated by China's

Confucian legacy, looms large. Political developments to date, therefore, amount to in-system tinkering.

In the end, peaceful evolution entails that China's Leninist party-state is gradually nudged towards becoming a "constitutional" state, something that will require far-reaching political reforms. For example, government interference in the economy would have to be diminished, ideally accompanied by higher standards of accountability and transparency on the part of local cadres. As mentioned above, structural political change would also need to include legal reforms, especially greater professionalism and independence of the courts. Lastly, reforms would have to include expanded channels for institutionalized policy input and feedback, such as those provided by effective government ombudsmen or an independent press.

The possibility that China might gradually develop a "constitutional" state should not be dismissed outright. There are, however, two caveats. First, if China continues to evolve politically, the system that emerges will most likely look quite different from existing polities under advanced capitalism. China's political structure will undoubtedly contain distinct Chinese characteristics.

Second, as Chapter 8 laid out in detail, opportunities for peaceful evolution might be slipping away. Such a transition could only occur with some degree of CCP blessing. Yet, the CCP seems far away from undertaking bold moves in political reform. In-system tinkering thus appears most likely for the foreseeable future. At some point, though, China's social, environmental, and political pressures might become so immense that social actors opt to employ more revolutionary methods to further their aims.

Scenario III: Chinese crony capitalism

A final option is that by seeking to retain its monopoly on legitimate political organization at any cost, the CCP acts to stall China's capitalist transition. As with peaceful evolution, this scenario is most likely to emerge after several additional years of in-system tinkering, though with a contrary outcome. Rather than outgrowing the dominant state model, limitations to the security of property rights and sway of markets would ossify, forcing Chinese entrepreneurs to continue their subservient ties with the party-state. As a result, China's variety of capitalism would become stuck in a form of Chinese crony capitalism.

As noted above, one of the key distinguishing aspects of capitalist systems is the potential for capital-owning social strata to restrain state action and construct a relatively autonomous realm of the economy. Alas, examples in world history show that the CCP might not be willing to yield the institutional and political space necessary for China's private entrepreneurs to continue their dynamism. As other state elites before it, the CCP seeks a monopoly over political organization and tends to suppress

any potential competitors for power. The CCP might thus opt to continue its direct influence over property rights and with this private capital's reliance on state munificence. This, though, could start to undermine the dynamic economic change experienced by China and strengthen the crony capitalist tendencies of China's emergent political economy.²

Chinese crony capitalism would mean that private entrepreneurs, especially those overseeing large firms, continue to seek close personal ties with state and party officials. There would also be a tendency by the state to clamp down on independent investor interests and to strengthen control over foreign capital. This system would continue China's present infusion of corrupt practices, and strengthen the monopoly positions of many firms locally and nationally. Chinese crony capitalism thus implies that the political imperatives of the CCP "freeze" China's capitalist transition near its present state. Capital's state-subservient position would continue, engendering an alliance of weak capital with a strong Chinese party-state.

Would such a system be sustainable? Partially this depends on whether China is able to retain pockets of economic dynamism (as now in coastal areas) while the overall political economy remains under state tutelage. In the long term, though, Chinese crony capitalism is quite unlikely to be sustained. So far, the CCP has been able to harness capital accumulation for the purposes of party legitimacy. This process must at some point exhaust itself.

First and foremost, we do not live in a static world. Pressures emanating from the global capitalist system will necessitate that China's state and party continue to upgrade the investment climate. Moreover, Chinese leaders continue to perceive both internal and external threats to national and regime survival. Rapid capital accumulation within China's borders could serve to contain and even surmount these perceived threats. Continued economic growth thus holds the key to the CCP's internal legitimacy and China's enhanced standing in the world. CCP hegemony does not stand above any perceived need for economic expansion.

As a result, the CCP leadership might see itself forced to back the continuation of China's capitalist transition, fostering economic liberalization and increased political prominence for capital-owning social strata. Political reforms necessary to assure continued capital accumulation would then have to follow at some point. In a sense, the global system's capitalist logic would induce internal political change in China, not much unlike what already has taken place in a gradual manner over the past thirty years.

This logic implies that peaceful evolution is a more likely scenario than Chinese crony capitalism. As noted above, however, the CCP does not seem to be willing to give up its ultimate authority over political organization, at least so far. In-system tinkering is certainly the most realistic scenario for the near future; while the longer term future of China's capitalist transition remains indeterminate. The already visible strains of China's transition such as widening income gaps, massive environmental degradation, and

plentiful instances of corruption could become too much for the system to bear. At a minimum, China's polity remains relatively insecure and volatile. The toughest challenge of a capitalist transition – the institutionalization of constraints on state action to construct a relatively autonomous realm of the economy – remains ahead.

International ramifications

Whichever of these three scenarios shapes China's future will have significant implications for the world. If China continues to muddle through and sustains its variety of capitalism under state tutelage, greater internal and external frictions are likely. Similarly, if Chinese crony capitalism emerges as the dominant feature of China's political economy, China could face a prolonged period of economic stagnation and social unrest.

Both of these scenarios imply that China continues a state-sponsored form of capitalism. On China's scale, this could prove to be highly destabilizing for the global capitalist system. Mounting financial and trade imbalances could trigger protectionist sentiments among both established and developing economies. Greater economic frictions, in turn, could alter China's international posture. One distinct possibility is that China's leadership, when faced with a protectionist backlash to its exports or slowing economic growth, might resort to encourage a stronger and more aggressive brand of nationalism. Stronger emphasis on nationalism could also be triggered by a large shock to China's system, such as a military conflict with Taiwan, a major world recession, or social upheaval within China.

A nationalist backlash, while temporarily bolstering the CCP's legitimacy, could easily snuff out China's forces of change, especially those fostering greater international openness. The limited advances made by China's private entrepreneurs and business leaders might then dissipate, making China's already somewhat insecure polity even more volatile. Political change in this direction also raises the specter of a form of Chinese fascism emerging. Although this must be regarded as a distant possibility, a move in this direction would express the CCP leadership's inability to progress politically.

The consequences of such developments would be dire for the world. China is already a giant trading and manufacturing power. It possesses rapidly advancing military capabilities and an expanding diplomatic and cultural reach. An upsurge of Chinese nationalism would create immense dangers for the Asia Pacific region and the world, ushering in a period of international conflict and economic instability. East Asia's economic boom of the early 21st century might then seem like a distant mirage.

Even without a nationalist backlash, the internal political situation in China could destabilize the country. The strains of China's capitalist transition are already palpable, such as widening income gaps and environmental degradation. Most importantly, though, China's leadership might just

simply lack the political will to advance the country's transition. Reforms could stall, pushing China into an equilibrium characterized by increased corruption and continuing lapses in governance. Again, the world would be faced with a major economic power encompassing volatile internal conditions.

A more optimistic outlook would see China making continued advances in economic and political governance. This would involve the process of peaceful evolution by which China gradually develops a "constitutional" state, though most likely with distinct Chinese characteristics. China's budding capitalists could then emerge as a truly competitive force, fundamentally altering the nature and logic of global capitalism.

Under this scenario, China is likely to surface as a much more open political economy than those of Asia's earlier developers, especially Japan, South Korea, and Taiwan. Indeed, China's network capitalism facilitates economic integration among economies containing large segments of Overseas Chinese. In addition, China's political efforts to engage with the region, especially the establishment of a free trade area in East Asia, could further support China's emergence as a major trading power. China could then arise as a new center for global economic activity by the next decade, bolstering its position as the economic hub of East Asia.

Put differently, if China roughly follows the path of peaceful evolution, the prospects for the smooth integration of China into the global political economy improve. Some of the effects, however, might still be difficult to deal with. China's rapidly developing corporate sector would most likely emerge as a competitive threat to many established corporations and endanger jobs in the developing and developed world. Moreover, as China's power expands the potential for both China's leadership and other world powers to mismanage China's international ascent increases. As I noted above, both external and internal factors could derail China's capitalist transition, with reverberations ranging from virulent nationalism in China to greater political instability in East Asia. If events unfold rapidly, problems in China could even generate a global economic shock.

In the end, China is already a colossus at a very early stage in its capitalist transition. Since China's authoritarian political constitution is unlikely to change in the near future, the world will be faced with a large economic power that nonetheless contains substantial institutional and legislative instability. China's size and transitory nature could therefore have destabilizing influences, even if China continues to make political advances.

Undoubtedly, the emergence of China as a major capitalist political economy is starting to alter global institutional arrangements. And if China's economic trajectory does not change, the country will become a formidable economic player, heating up economic and geopolitical competition. Clear signs of this are visible. As China's international influence grows, regional powers will have to realign their foreign policies.

Already this is causing increased tensions between China and Japan, and will most likely create greater tensions between China and the United States in the near future.

As with the rise of other great powers before it, China's rise will be disruptive and difficult for the international system to absorb. Can the world accept and live with capitalism in the dragon's lair? This will be the major question for the geopolitics and economics of the early 21st century.

Notes

1 Informant 66, Beijing, 2005.

2 See Chapter 6 for a definition of crony capitalism.

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